

May 04, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	6.00	SMERA BB+/Stable (Assigned)
Bank Guarantee/Letter of Guarantee	10.75	SMERA A4+ (Assigned)

SMERA has assigned long term rating of '**SMERA BB+**' (**read as SMERA double B plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) to the above mentioned Rs.16.75 crore bank facilities of R. Gangaiah & Co (RGC). The outlook is '**Stable**'. The ratings derive comfort from the extensive industry experience of the promoters in the civil construction business, comfortable financial risk profile and moderate order book position that provide revenue visibility for the next two years. However, the ratings are constrained by the declining profitability and high dependence of the firm on tender-based government orders in an intensely competitive civil construction industry. The ratings also factors that the company's business risk profile remains exposed to political risks prevailing in the industry.

Rating Sensitivity Factors

- Scaling operations while maintaining profitability
- Efficient working capital management

Outlook - Stable

SMERA believes that the outlook on RGC's rated facilities will remain stable in the medium term on account of its experienced management and moderate order book position. The outlook may be revised to 'Positive' if the firm is able to sustain growth in revenue along with improved profitability and maintain its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm fails to scale up on expected revenues and profitability or reports deterioration in the liquidity position.

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About the Firm

Incorporated in 1992 at Hyderabad, RGC is a partnership firm promoted by Mr. R Venkateswara Rao, Mr. Nageswara Rao and Mr. R. Lakshmi Kishori. The firm is engaged in the construction and maintenance of buildings, railway bridges, roads, hospitals, drainage systems & pipeline works, compound walls & other structures etc. It is registered as special class civil contractor and executes tender based orders from the governments of the states like Andhra Pradesh, Telangana, Orissa, Chhattisgarh and Uttar Pradesh, Railway Departments and other public sector organisations.

For FY2014–15, RGC reported profit after tax (PAT) of Rs.2.56 crore on operating income of Rs.74.43 crore, as compared with PAT of Rs.1.83 crore on operating income of Rs.53.05 crore in the previous year.

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